

VRS Semi-Annual Investment Report: December 2011

BACKGROUND

The Virginia Retirement System (VRS) administers a statewide public employee retirement system for state employees, local school division employees, such as teachers, and employees of participating political subdivisions. In addition, VRS administers group life insurance, deferred compensation, and disability programs for employees, as well as a health insurance credit program for eligible state retirees.

JLARC is responsible for ongoing oversight of VRS. To this end, JLARC staff produce semi-annual reports on VRS investments and administrative matters. VRS invests in public equity, fixed income, credit strategies, real estate, and private equity programs, as well as hedge funds.

The December 2011 report summarizes (1) the status of VRS investments as of September 30, 2011; (2) the funded status (ratio of assets to liabilities) of each state-supported retirement plan as of June 30, 2011; and (3) the recommended employer contribution rates for the 2013-2014 biennium for the state and local retirement plans. The employer contribution rate is the amount the VRS actuary has calculated will need to be contributed to move the plans toward full funding.

VRS TRUST FUND PERFORMANCE HIGHLIGHTS

- \$49.6 billion in assets as of September 30, 2011.
- 1.9% return between September 30, 2010 and September 30, 2011.
- Exceeded the ten-year, five-year, and fiscal year-to-date benchmarks.
- Did not earn the assumed rate of return (7%) over the ten-year period.
- Added value (increased 130 basis points, or 1.3 percentage points) over the long-term benchmark (4.5%) for the ten-year period.
- Performance for the quarter ending September 30, 2011 was negative, but 19.1% return in FY 2011 was one of the fund's highest in the past 20 years.

OTHER HIGHLIGHTS

- Funded status of all state-supported retirement plans has declined, primarily because of (1) employer contributions that were paid at below-recommended rates and (2) underperformance of investments relative to assumed rates of return.
- Recommended employer contribution rates for the 2013-2014 biennium increased for all state-supported retirement plans compared to recommended rates following the last rate-setting valuation performed by the VRS actuary. Recommended rates for state employees' and teachers' plans are currently more than double what was budgeted for contributions to those plans for the first three quarters of FY 2012.
- The VRS Board of Trustees appointed a new chief investment officer following a year-long search.